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SUBJECT: INVESTMENT PROSPECTING IN MAZAR-E-SHARIF, AFGHANISTAN: ONE
FIRM'S EXPERIENCE

REF: VILNIUS 739

VILNIUS 00000760 001.2 OF 002

¶1. SUMMARY: An executive from one of Lithuania's largest companies visited Afghanistan in July to scout for business and investment opportunities. Part of a larger GOL delegation, he split from the group for a few days to visit a fertilizer factory in Mazar-e-Sharif that his company had assisted in the 1980s. The executive told us of the obstacles he sees to investing in Afghanistan, including poor infrastructure and uncertainty about the government's plans for the future, but also identified some commercial opportunities in manufacturing plastic bags and selling sweets. The executive's company is now considering whether and how to invest in Afghanistan.
END SUMMARY.

A VISIT TO MAZAR-E-SHARIF

¶2. Rimantas Sinkevicius, Director of Development at the Achema Group, visited Mazar-e-Sharif July 13-15 to inspect the descriptively named "Fertilizer and Electricity Producing Factories in Mazar-e-Sharif." (NOTE: The Achema Group, Lithuania's second largest industrial concern, manages a group of 40 companies involved in everything from producing fertilizers and other chemicals to managing hotels and running a television station.) Sinkevicius was part of a larger delegation of Lithuanians (reftel) that visited Afghanistan, but he was the only member of the delegation to travel to Mazar-e-Sharif. He related his experience in Afghanistan to us on August 9.

A FACTORY TOUR . . .

¶3. Some 20 years ago, Achema sent some of its staff to help run this 1960s-era factory. Achema decided it wanted to examine the current state of the facilities, with an eye towards investing in it, or even purchasing it outright. Sinkevicius said that the plant has the capacity to produce 150 tons of urea per year, but currently produces only 40 tons, and that only one of the four 12 MW turbines is functioning. He added that the factory's payroll of 2600 employees is three times the size it needs to be, and that the inconsistent availability and quality of natural gas (a critical raw material in urea fertilizer production) from neighboring Jawzjan province was a serious problem for the factory.

. . . SORT OF

14. Sinkevicius said that he was unable to actually enter the factory and inspect its facilities because the factory's director (Abdul Walek) -- who had been on the job for only a week -- refused to allow him in without official, written permission from either the federal government or the local governor. Unfortunately, said Sinkevicius, the local governor happened to be in Kabul while Sinkevicius was in Mazar-e-Sharif, effectively preventing him from obtaining the required permission. Sinkevicius said that he had not expected this particular obstacle, and that he had not coordinated his visit to the factory with government or plant officials beforehand. He said he was not even sure how he could have made these arrangements. He also said that he was previously unaware of the services of the Afghan Investment Support Agency (AISA) and that Achema would contact them in the future.

SOME OBSTACLES TO INVESTING IN AFGHANISTAN . . .

15. Sinkevicius offered his observations on the obstacles that Achema would face if it tried to invest in Afghanistan, many of which would likely hinder other potential investors, as well:

-- The unreliable supply of natural gas to the factory in Mazar-e-Sharif;

-- A lack of adequate guarantees and protections for investments, backed by international institutions like the World Bank;

-- A lack of understanding about the government's plans for Afghanistan's commercial future (he noted, for instance, that there are no taxes now, but wonders what will happen in the future when international donors stop financing the country);

-- Poor infrastructure, especially dilapidated roads and no rail system;

VILNIUS 00000760 002.2 OF 002

-- A pervasive sense of uncertainty about whether or not the central government is actually in control and can enforce its decisions; and

-- Government infighting that seems to focus on the distribution of the country's assets instead of a political process designed to enforce the rule of law.

. . . BUT SOME OPPORTUNITIES, ALSO

16. Recognizing these obstacles, Sinkevicius nonetheless emphasized that he saw commercial opportunities for his company in Afghanistan.

In particular, he said that there seemed to be a market for polypropylene bags, and that investing in a small facility that could produce these bags for industrial or personal use might make commercial sense. He also said that he saw markets for sweets and textbooks, both products that Achema produces. He said that he would present proposals in support of these ideas in September to his company's decision-makers, and offered to inform us of their decisions. Sinkevicius also said that Achema might still be interested in the fertilizer factory if the Aghan authorities would also allow it to buy the natural gas well and production facility in Jawzjan province. Without being able to control the supply of natural gas, he said, investing in the fertilizer factory was simply too risky.

COMMENT

17. Sinkevicius's trip, which the GOL strongly encouraged, facilitated, and supported, serves as another demonstration of the GOL's desire to see the international mission in Afghanistan succeed. Afghanistan is probably not on the brink of a major inflow of capital from Lithuania, but a significant Lithuanian commercial

success in Afghanistan would likely pique the interest of other businesses here. We will stay in touch with Achema and continue to report on its plans for Afghanistan.

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